



Activity Review

North Carolina State Board of Certified Public Accountant Examiners

1101 Oberlin Road, Suite 104 • PO Box 12827 • Raleigh, NC 27605 • (919) 733-4222 • No. 3-2005

Certificate Renewals Mailed to Licensees

In February, the Board mailed certificate renewal forms to all licensees. By reading the instructions enclosed with the renewal form and by following the checklist below, you can ensure that your properly completed renewal form is received by the Board prior to July 1, 2005.

Certificate Renewal Checklist

- **Does the Board have your correct mailing address and telephone number?**

Pursuant to 21 NCAC 8J .0107, all certificate holders must notify the Board in writing (via fax, e-mail, or postal service) within 30 days of any change in address, phone number, or business location.

For your convenience, a "Notice of Address Change" is printed on the back page of each issue of the *Activity Review*.

- **Did you follow the renewal form instructions and properly complete each section of the form?**

Usually, renewal forms can be processed without any problem. However, because the renewal form is considered a legal document, the Board staff cannot insert missing information, correct inaccurate information, or process a form that has not been signed by the licensee. Consequently, the form must be returned to you for correction or completion.

- **Did you accurately compute and report your CPE hours?**

Active certificate holders who were

licensed prior to March 31, 2004, must have completed at least 40 hours of CPE in 2004 to meet the renewal requirement.

Certificate holders who were licensed between April 1, 2004, and June 30, 2004, must have completed at least 30 hours of CPE; certificate holders licensed between July 1, 2004, and September 30, 2004, must have completed at least 20 hours of CPE; and certificate holders licensed between October 1, 2004, and December 31, 2004, must have completed at least 10 hours of CPE by December 31, 2004.

All licensees, regardless of when they were licensed, must have completed at least eight (8) hours of non-self-study CPE to qualify for renewal.

Certificate holders licensed after January 1, 2005, are not required to report any CPE on this renewal form; however, they are required to earn CPE credits in 2005 to be reported on the 2006 renewal form.

Licensees affirm their CPE compliance by marking the appropriate box in Section II, "Continuing Professional Education (CPE) Compliance Information," and then reporting their CPE credit hours in Section III, "Report of CPE Credit Hours."

Licensees should retain documentation of their participation in CPE courses for at least four years after the end of the license year.

- **Did you enclose the \$50.00 renewal fee with your form?**

You may pay the annual renewal

fee by check (made payable to the NC State Board of CPA Examiners) or you may pay the fee using your Visa or MasterCard—instructions for paying the renewal fee by credit card are included with the renewal form. Please note that your credit card authorization must include a valid card expiration date.

The Board cannot cash a check which is made payable to another entity, such as the NCACPA; therefore, the accompanying renewal form cannot be processed because it is considered incomplete.

If the credit card number or expiration date is incomplete, if a check fails to clear the bank, or if a credit card charge is not approved by the issuing financial institution, the renewal form is considered incomplete and will be returned to you.

Renewal

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Disciplinary Actions

Johnny Lee Blackwell, #14659
J. L. Blackwell, CPA
Fayetteville, NC 12/20/2004

THIS CAUSE coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, at public hearing, with a quorum present, the Board finds, based on the evidence presented at the hearing on December 20, 2004, that:

FINDINGS OF FACT

1. The parties have been properly identified.
2. The Board has jurisdiction over Respondents and this matter.
3. Respondent received at least fifteen (15) days written Notice of Hearing of this Matter by personal service, certified mail, or other approved personal delivery.
4. Venue is proper and the Notice Hearing was properly held at 1101 Oberlin Road, Raleigh, North Carolina.
5. Respondents had no objection to any Board Member's participation in the Hearing of this Matter.
6. Respondents were not present at the Hearing and were not represented by counsel.
7. Respondent Johnny Lee Blackwell (hereinafter "Respondent Blackwell") is the holder of a certificate as a Certified Public Accountant in North Carolina.
8. Respondent J. L. Blackwell, CPA (hereafter "Respondent firm"), is a licensed certified public accounting firm in North Carolina. Respondent firm is an individual practitioner firm owned and operated by Respondent Blackwell.
9. Respondent Blackwell and Respondent firm are therefore subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.

10. In May of 2004, pursuant to a plea agreement, Respondent Blackwell entered guilty pleas to three (3) misdemeanor counts of willfully failing to file his North Carolina individual income tax returns for 2000, 2001, and 2002. Respondent Blackwell was thereupon convicted and sentenced to forty-five (45) days in custody, which sentence was suspended, and he was placed on eighteen (18) months of supervised probation. In addition, Respondent Blackwell was required to perform fifty (50) hours of community service, to pay a five hundred dollar (\$500.00) fine, to pay one thousand eight hundred twenty dollars (\$1,820.00) in restitution, and to pay the costs of court.

11. Respondent Blackwell failed to timely pay his federal individual tax returns for at least the tax years 2000, 2001, and 2002.

12. Respondent Blackwell and Respondent firm failed to timely file and/or pay Respondent firm's 941s for at least three (3) quarters in 1997, one quarter in 1998, and all quarters in the years 2000, 2001, 2002, and 2003.

13. Respondent Blackwell currently has repayment plans for the 941s and for both state and federal tax returns including interest and penalties.

CONCLUSIONS OF LAW

1. Respondent Blackwell's criminal convictions as set out above constitute violations of NCGS 93-12(9)e and 21 NCAC 8N.0201, .0202(a), .0203(b)(1), .0204(c), and .0207.
2. Respondent Blackwell's failures to ensure that Respondent firm's 941s were timely filed and/or paid are violations of NCGS 93-12(9)e and 21 NCAC 8N.0201, .0202, .0203, .0207.

BASED ON THE FOREGOING, the Board orders in a vote of seven (7) to zero (0) that:

1. The Certified Public Accountant certificate issued to Respondent, Johnny Lee Blackwell, is hereby permanently revoked.

Marvin Harold Witherspoon, #2223
M. Harold Witherspoon, CPA
Hickory, NC 12/20/2004

THIS CAUSE coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, at public hearing, with a quorum present, the Board finds, based on the evidence presented at the hearing on December 20, 2004, that:

FINDINGS OF FACT

1. The parties have been properly identified.
2. The Board has jurisdiction over Respondents and this matter.
3. Respondents received at least fifteen (15) days written Notice of Hearing of this Matter by personal service, certified mail, or other approved personal delivery.
4. Venue is proper and the Notice Hearing was properly held at 1101 Oberlin Road, Raleigh, North Carolina.
5. Respondents had no objection to any Board Member's participation in the Hearing of this Matter.

Witherspoon

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2005 Board Meetings

April 20
May 16
June 21
July 14*
August 22
September 19
October 24
November 21
December 19

Meetings of the Board are open to the public except when, under State law, some portions may be closed to the public.

Unless otherwise noted, meetings are held at the Board office and begin at 10:00 a.m.

*Greensboro

6. Respondents were not present at the Hearing and were not represented by counsel.

7. Respondent Marvin Harold Witherspoon (hereinafter "Respondent Witherspoon") was the holder of a certificate as a Certified Public Accountant in North Carolina. Said certificate was revoked on August 23, 2004, under Emergency Order for Revocation.

8. Respondent M. Harold Witherspoon (hereinafter "Respondent firm") was a licensed certified public accounting firm in North Carolina. Respondent Witherspoon is sole owner of Respondent firm.

9. Respondent Witherspoon and Respondent firm are therefore subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board and is therefore subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.

10. In November of 2003, Respondent Witherspoon was arrested on state charges of four (4) counts of first-degree sexual exploitation of a minor and with five (5) counts of second-degree sexual exploitation.

11. Respondent Witherspoon was released on the state charges under a one hundred thousand dollar (\$100,000.00) bond.

12. On January 20, 2004, Respondent Witherspoon was arrested on federal charges and was subsequently indicted by a federal Grand Jury on January 30, 2004, for violations of 18 U.S.C. §2, 2251, 2252, 2252A, generally pertaining to the alleged sexual exploitation of children and the transportation or distribution of child pornography.

13. On June 29, 2004, the federal Grand Jury issued a Superseding Bill of Indictment, further charging, in Count 2, that the Respondent Witherspoon "...did knowingly and willfully employ, use, persuade, induce, entice, or coerce a person under the age of eighteen to engage in sexually explicit conduct, ... for the purpose of producing visual depictions of such conduct, specifically a video tape entitled 'Marvin and friends', such visual depictions having actually been produced using materials that have been mailed, shipped, or transported in interstate or foreign commerce..." as well as ten (10) other related charges.

14. From January 20, 2004, through the date of this Order, Respondent Witherspoon has been continuously held in federal custody.

15. Respondent Witherspoon failed to timely disclose to the Board those federal charges pending against Respondent Witherspoon or the fact of Respondent Witherspoon's incarceration.

16. Despite Respondent Witherspoon's incarceration and despite the absence of active and local supervision by a CPA, Respondent firm has continued to offer and provide public accountancy services, including attest services as defined by 21 NCAC 8A .0301(b)(5), to clients as a CPA firm.

17. On September 13, 2004, Respondent Witherspoon signed a plea agreement pleading guilty to Count 2 of the federal charges contained in the January 29, 2004, Superseding Bill of Indictment.

CONCLUSIONS OF LAW

1. Respondent's conduct as set out above constitutes violations of NCGS 93-12(9)e and 21 NCAC 8N .0201, 8N .0203(a), and 8N .0203(b)(1).

BASED ON THE FOREGOING, the Board orders in a vote of seven (7) to zero (0) that:

1. The Certified Public Accountant certificate issued to Respondent, Marvin Harold Witherspoon, is hereby permanently revoked.

THIS CAUSE, coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to NCGS 150B-41, the Board and Respondent stipulate the following Findings:

1. Respondent is the holder of North Carolina certificate number 22192 as a Certified Public Accountant.

2. In response to a client's request for the return of client records, Respondent failed and refused to return said client's records upon demand.

3. Respondent informed the client that Respondent would not return the client's records until the client paid all outstanding fees.

4. In responding to Board correspondence, despite applicable rules, Respondent stated that it was her policy not to return client records upon demand until all outstanding fees have been paid.

5. Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Order with the Board *ex parte*, whether or not the Board accepts this Order as written.

BASED UPON THE FOREGOING, the Board makes the following Conclusions of Law:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.

2. Respondent's actions as set out above constitute violations of NCGS 93-12(9)e and 21 NCAC 8N .0305(c).

BASED ON THE FOREGOING and in lieu of further proceedings under 21 NCAC Chapter 8C, the Board and Respondent agree to the following Order:

Mills

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Preliminary Item Analysis

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What makes the Uniform CPA Examination a “high-stakes” exam? The fact that the exam is one of the three prongs of CPA licensure together with education and experience? That its results can have a major impact on candidates’ lives? Is a key to entry into a highly respected profession? Or that it’s one of the most difficult professional examinations?

The answer is yes to all of the above. But what also makes the CPA Examination such a unique test are the aspects invisible to most people. Anyone who has ever studied for or taken the CPA Examination agrees that it is a thorough and perhaps grueling exam. However, few people realize the effort that goes into its development, implementation, and scoring. The multiple-choice questions and case study simulations that comprise the CPA Examination are the culmination of several years of work by professionals in the fields of accounting, business, education, law, test development, and psychometrics, among others. A combination of statistics and educational development, psychometrics is the science of measuring “psychological” aspects of a person such as knowledge, skills, abilities, or personality¹.

AICPA professional staff, together with volunteer members of CPA examination sub-committees and working groups perform certain tasks before, during, and after the CPA Examinations are administered each quarter. Their goal is to make sure every test question and simulation is accurate, reliable, and relevant, and that examination scoring is done with the utmost accuracy and precision.

A Critical Component of the Exam Review Process

According to AICPA consultant Cheryl L. Wild, Ph.D., “A critical component of

the CPA examination review process is Preliminary Item Analysis or PIA. PIA consists of statistical analyses done prior to scoring of the examination to identify any items (questions) that are not performing as expected.”

Dr. Wild explained that multiple-choice questions and to a lesser extent, simulations, are extensively pre-tested prior to being used in a CPA Examination. AICPA staff psychometricians analyze the statistics collected during pre-testing, and can assess how candidates will respond to each question. During each examination testing window (the two months in each quarter the CPA exam is offered), candidates’ actual responses to each test question and simulation are collected and analyzed prior to final scoring. Questions that do not perform as expected are flagged for an intensive review by subject matter experts (SMEs) during this preliminary analysis.

“Generally, what happens is that a staff psychometrician flags any measurement opportunity² within an item in the current examination that does not seem to be acting properly (statistics are not what was expected),” said Dr. Wild.” These items or simulations are then intensively reviewed by groups of subject matter experts (SMEs) during an intensive two-day PIA session. PIA is standard procedure for most major testing programs. However, few examinations include simulations. PIA for CPA Exam multiple-choice questions has been done for years as part of the exam development and scoring processes. Since simulations are new, PIA for these question types are much more complicated than for multiple choice questions. We are continually developing and refining the process, and expect that CPA Exam simulation PIA procedures will probably become industry best practice.”

The purpose of PIA is to “make sure that nothing changed during the time the item was approved for use in the exam, and the time the exam was given, that may affect scoring,” added Dr. Wild.

“For example, changes in content, law, or regulation may have occurred since a question was pre-tested and accepted into the exam. We also want to be sure nothing was changed or lost when translated to a computer format. In the case of simulations, which are a new item type, we want to identify any new ways of responding that may not have been apparent when a question was being developed, but may be valid. Candidates are very creative and at times come up with responses we never dreamed of; we do PIA to be sure we’re very fair and that all questions, especially simulations, are scored fairly.”

The AICPA makes every effort to thoroughly review the test and ensure scoring is done properly. As noted by Dr. Wild, “Such thorough review prior to and during scoring is the reason final scores are rarely changed during the rescore or appeal process.”

Adds Credibility

“A lot of people think that it’s like it was in college, where a teacher writes and grades the exam,” said Leonard Jones, CPA, private practitioner, vice president of *[sic]* North Carolina State Board of Accountancy, and a member of AICPA Content Subcommittee. “The CPA Exam is a lot more challenging and complex. There’s a lot of thought and process behind it. Here, it’s all these other groups — psychometricians, subject matter experts, test developers — writing and reviewing the exam. It’s not just a bunch of college professors.”

This all adds to the CPA Examination’s credibility. “A lot of testing goes on before, like pre-testing and reviews, and even after the test is taken, a lot of review is going on to make sure it’s fair,” said Mr. Jones. “PIA is done to make sure candidates get credit where they deserve credit.”

AICPA test developer Joseph A. Dutz, CPA, explained the PIA process

Analysis

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Analysis *continued from page 4*

and what sub-committee members can expect when they participate in this type of review. "During PIA, sub-committee members review flagged simulation measurement opportunities and a variety of statistical analyses. These include distributions of specific candidate responses and the distribution of answers across the total candidate pool. We're mostly concerned with moderate and high performers, since that's where the determination is made whether a candidate is qualified to become a CPA."

Sub-committee members also review what are called "biserial correlations," which compare performance on simulations with how the candidates did on the multiple-choice part of the exam. "It's expected that candidates who did well on the multiple choice questions will do well on simulations," explained Mr. Dutz. "During the review, the SMEs view the actual simulation and the statistics of how candidates responded to the individual measurement opportunities within the simulation. Then they conclude that the answer contained in the exam answer key is correct or whether another response could or should be considered an appropriate and valid answer."

It is important to note that neither the AICPA, nor its committee members,

are privy to candidate names or other identifying information at any time during the review or scoring processes. The statistical analyses and scoring are all done using codes and candidate identification numbers.

Any recommendations resulting from PIA are sent to an AICPA scoring sub-committee for further review and final disposition. If the recommendations are accepted, the examination answer keys are changed and the tests are ultimately scored using the revised key.

Supports the Validity of the Exam

Joe Obst, a CPA from New Jersey, who helps formulate and write simulations for the CPA Examination, talked about his first experience as a PIA subject matter expert. "The process is important because it solidifies our professional beliefs (as CPAs) as to the validity of the exam questions. Candidates should know about PIA and other exam reviews because it provides more assurance that professionals are doing a lot of work behind the scenes, and that they can rely on the examination and the answers. When I took the CPA exam, I often heard people ask, 'Who wrote the exam? Are they qualified?' This also shows we have enough flexibility to provide

another layer of assurance that the exam is fairly scored," Mr. Obst commented.

Another subject matter expert, Nick Fiore, is an attorney as well as a freelance editor/writer and a former CPA Examination reviewer. He believes PIA adds value to the entire examination saying, "It improves the process, especially for those of us who have written the questions. Sometime what you think is obvious to candidates is not, or you're so far removed from a candidate's level you have a different perspective."

Marsha Huber, Ph.D., CPA, accounting professor at Otterbein College in Ohio, and member of the AICPA Regulation Simulation development working group stated, "I was surprised at how thorough they (AICPA Examinations Team) are. I think that it's amazing, how well thought-out the exam is and how much testing, preliminary testing, and statistical analysis is done to make sure the exam is fair."

¹ from Wikipedia, the free encyclopedia at <http://wn.wikipedia.org/wiki/Psychometrics>.

² An instance of where a candidate can receive a score; there can be multiple measurement opportunities within a question or simulation.

Certificates Issued

At its February 21, 2005, meeting, the Board approved the following applications for licensure:

| | | |
|-------------------------------|----------------------------|-------------------------|
| Beth Ann Arbuckle | Lori Ann Fuqua | Anna Nicole Madren |
| Karen Hughes Aylor | Vickie Reid Hanner | Brian Rai Mann |
| Jannica Maria Elisabet Barton | Dana LaRae Harrison | Susan D. McDaniel |
| Michelle Marie Boswell | Evan Mark Hood | John Travis McMinnville |
| Te-Hsin Annie Chu | John Willis Howard | Joy Christine Munns |
| Donna Sorrells Clampitt | Frank Edward Jenkins, Jr. | Edwin Tyler Niblack |
| Cynthia Day Collie | Novallea F. Karwatsky | Carey Renee Parnell |
| Jonathan Gary Cooke | Mark Allen Kelley | Wesley Brandon Peele |
| Dale R. Coulthard | Erich Jonathan Kessel, Sr. | Jill Ferrell Robertson |
| Dominick Angelo DeBellis | Hee Jin Kim | Cecilia Tudor Rose |
| Jenny Ann Duey | Dorrene S. Kline | Leslie Savage |
| Melissa Raye Fiss | Mark Alan Konyndyk | Robert Jeffrey Suggs |
| Sandra O. Frempong | Tammy L. Lehman | Adam Louis Wilch |

Mills *continued from page 3*

1. Respondent is censured.
2. Respondent shall pay a three hundred dollar (\$300.00) civil penalty to be remitted with this signed Consent Order.
3. Within one hundred eighty (180) days of the date this Order is approved by the Board, Respondent must complete and provide verification of her completion of the Ethics Principles and Professional Responsibilities course as offered by the North Carolina Association of Certified Public Accountants. Said course may not be used to meet Respondent's annual forty (40) hour continuing professional education requirement.

William Vaughn Ward, #25737
Washington, NC 12/20/2004

THIS CAUSE coming before the Board on December 20, 2004, at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present, the Board finds, based on the clear and convincing evidence presented, that:

FINDINGS OF FACT

1. William Vaughn Ward (hereinafter "Mr. Ward") is the holder of a certificate as a Certified Public Accountant in North Carolina and is therefore subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
2. Mr. Ward's certificate was placed on conditional status in September of 2001 for failure to complete the Continuing Professional Education (CPE) requirements for 2000.
3. Mr. Ward's certificate was again placed on conditional status and he was fined a \$100.00 civil penalty in October of 2002 for a second failure within a five (5) year period to complete the CPE requirements for 2001.
4. Mr. Ward failed to timely obtain CPE for 2003 in accordance with provisions

as required by NCGS 93-12(8b) and 21 NCAC 8G .0401(e).

5. Mr. Ward subsequently notified the Board that his CPE was completed after the applicable deadline but before July 1, 2004.

CONCLUSIONS OF LAW

1. Mr. Ward's third failure within a five (5) calendar year period to timely obtain the required CPE is a violation of NCGS 93-12(8b) and 21 NCAC 8G .0401(e).

BASED ON THE FOREGOING, the Board orders that:

1. The renewal of Mr. Ward's certificate is denied for at least thirty (30) days and until Mr. Ward meets the reinstatement requirements set forth in 21 NCAC 8J .0106. Mr. Ward must return his forfeited certificate to the Board within fifteen (15) days of the receipt of this Order.
2. If Mr. Ward fails to return his forfeited certificate within fifteen (15) days of the receipt of this Order, the thirty (30) days noted in requirement #1 will be extended by the number of days that his certificate is late in being returned to the Board.
3. If Mr. Ward returns his forfeited certificate within fifteen (15) days of the receipt of this Order, Mr. Ward can, after at least thirty (30) days, apply to return his certificate to active status by submission and approval of a reinstatement application which includes:
 - a. Application form,
 - b. Payment of the application fee,
 - c. Three moral character affidavits, and
 - d. Forty hours of CPE in the 12 months preceding the application including an eight-hour accountancy law course pursuant to 21 NCAC 8F .0504.
4. If Mr. Ward returns his forfeited certificate in excess of fifteen (15) days of the receipt of this Order, Mr. Ward can, after thirty (30) days plus the number of days that his certificate was late in being returned to the Board, apply to return his certificate to active status by submission and approval of a reinstatement application which includes:
 - a. Application form (which includes

statements regarding use of title during forfeiture),

- b. Payment of the application fee,
- c. Three moral character affidavits (on forms provided by Board),
- d. Forty hours of CPE in the 12 months preceding the application including an eight-hour accountancy law course pursuant to 21 NCAC 8F .0504.
- e. A Consent Order requiring payment of a \$100.00 civil penalty.

Renewal *continued from front*

• Did you use the business reply envelope to file your renewal form?

The Board includes a business reply envelope with each license renewal. Using the business reply envelope not only saves you money, but also reduces the chance that your renewal will be misdirected by the postal service.

Licensees who do not submit a properly completed renewal form and the renewal fee of \$50.00 prior to July 1, 2005, will receive a Letter of Demand from the Board.

Failure to submit the completed forms within 30 days of the mailing of the Letter of Demand will result in an automatic forfeiture of the licensee's certificate.

Upon forfeiture, the individual is no longer considered a CPA; he or she may not use the CPA title; and he or she must return the actual CPA certificate to the Board within fifteen (15) days.

If you do not receive a renewal form by April 18, 2005, please contact Alice G. Steckenrider by telephone at (919) 733-1422 or by e-mail at alicegst@bellsouth.net so a duplicate form can be e-mailed or faxed to you.

If you have questions about the renewal process, please contact Buck Winslow by telephone at (919) 733-1421 or by e-mail at buckwins@bellsouth.net.

Correction

In the January 2005 (01-2005) issue of the *Activity Review*, John Knox Gill, #13656, was identified as being on conditional status; his certificate is on active status.

AICPA Interpretation 101-3, *Performance of Non-Attest Services Requirement to Document Understanding With an Attest Client*

In September 2003, the AICPA's Professional Ethics Executive Committee (PEEC) issued revisions to Interpretation 101-3 to ensure its continued effectiveness in promoting independence when a practitioner renders non-attest services to an attest client.

Although the new rules became effective for new engagements on January 1, 2004, the effective date of the new documentation requirement was deferred until January 1, 2005.

Accordingly, the documentation requirement took effect for any non-attest services performed for an attest client on or after January 1, 2005, including services already in progress at that date.

One of the requirements of the new rules is that, prior to performing non-attest services for an attest client, the practitioner should establish and document in writing his or her understanding with the client regarding the:

- Objectives of the engagement;
- Services to be performed;
- Client's acceptance of its responsibilities;
- Practitioner's responsibilities; and
- Any limitations of the engagement.

The documentation requirement applies to any non-attest services (*e.g.*, bookkeeping, tax, or consulting services) performed by the practitioner for an attest client.

For purposes of this rule, an "attest client" is any client for which the practitioner performs any service for which independence is required.

Accordingly, for purposes of this rule, a client for which a practitioner performs a compilation would only be considered an attest client if the practitioner's compilation report does not disclose a lack of independence.

In cases where a practitioner only

provides non-attest services to a client, the general requirements of the interpretation, including the documentation requirement, are not effective until the client becomes an attest client.

For example, if a practitioner provides only tax planning and bookkeeping services for a client and is subsequently asked to perform a review of the client's financial statements, that practitioner could perform such services if, upon acceptance of the review engagement, he or she prepares the required documentation and can demonstrate that he or she has complied with the other general requirements of the interpretation during the period covered by the financial statements, including the requirement to establish an understanding with the client regarding the matters identified above.

While the rule requires that the understanding with the client must be in writing, the form of documentation is left to the practitioner's discretion—the method of documentation is not as important as the content of the documentation.

For example, if the practitioner performs a consulting engagement for an audit client, the practitioner may decide to document the required elements with respect to the consulting engagement in the audit engagement letter, but the understanding could also be documented in a separate engagement letter specific to the consulting service engagement, in a memo to the audit files, or in a checklist that the practitioner completes as part of the audit.

If a client engages the practitioner to perform tax services, the understanding could be documented in a tax organizer or in a memo contained in the tax working papers.

Other methods of documentation such as a memo of understanding maintained in the practitioner's billing or correspondence files (*i.e.*, separate from

the client work paper files) would also satisfy this requirement.

The documentation requirement does not apply to routine activities performed by the practitioner such as providing advice and responding to the client's technical questions as part of the normal client-practitioner relationship.

At its January 26-27, 2005, meeting, the PEEC adopted revisions to reflect that a practitioner's failure to document the understanding with the client would not be considered an impairment of independence provided such understanding had been established. However, failure to document would be considered a failure to comply with an ethics standard under Rule 202.

Additional information on Interpretation 101-3 and the revisions is available from the AICPA web site, www.aicpa.org.

Comments

If you have questions or comments regarding the *Activity Review*, please contact the Board's Executive Director, Robert N. Brooks, by telephone at (919) 733-1425 or by e-mail at rnbrooks@bellsouth.net.

Reclassifications

Reinstatement - 02/21/2005

Donna Meacham Blackman, #21271

William S. Creekmuir, #11710

Joseph Yates Parker, III, #20284

Jolene Kay Perez, #24254

Susan Vickers Smith, #12510

Herschel Everett Stellings, #7417

Charles Edward Williams, #12799

Reissuance - 02/21/2005

Ronald Franklin Finger, #9231

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State Board of CPA Examiners

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Notice of Address Change

Certificate Holder _____
Last name Jr./III First Middle
Certificate No. _____ Send Mail to ____ Home ____ Business
New Home Address _____
City _____ State _____ Zip _____
CPA Firm/Business Name _____
New Bus. Address _____
City _____ State _____ Zip _____
Telephone: Bus. () _____ Home () _____
Bus. fax () _____ E-mail Address _____
Signature _____ Date _____

**Mail to: NC State Board of
CPA Examiners
PO Box 12827
Raleigh, NC 27605-2827**

Fax to: (919) 733-4209

Certificate holders not notifying the Board in writing within 30 days of any change in address or business location may be subject to disciplinary action under 21 NCAC 8J .0107.